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RUEHDS/AMEMBASSY ADDIS ABABA 3217

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RUEHGP/AMEMBASSY SINGAPORE 0007

RUEHBJ/AMEMBASSY BEIJING 0102

RUEHKM/AMEMBASSY KAMPALA 3265

RUEHNR/AMEMBASSY NAIROBI 5712

RUEAIIA/CIA WASHDC

RUEKJCS/JOINT STAFF WASHDC

RUEATRS/DEPT OF TREASURY WASHDC

RHEFDIA/DIA WASHDC

RUZEJAA/JAC MOLESWORTH RAF MOLESWORTH UK

RUZEHAA/CDR USEUCOM INTEL VAIHINGEN GE

UNCLAS SECTION 01 OF 02 HARARE 000837

SENSITIVE

SIPDIS

AF/S FOR B. WALCH

EEB/TRA

CA/OCS/ACS/AF M. RAUGUST

JOHANNESBURG FOR RCO K. MAY

TREASURY FOR D. PETERS

E.O. 12958: N/A

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SUBJECT: AIR ZIMBABWE ON LIFE SUPPORT

REF: HARARE 228

¶1. (SBU) Summary: In the words of CEO Peter Chikumba, Air Zimbabwe is on life support in the Intensive Care Unit. Although the wholly government-owned flagship air-carrier of Zimbabwe has laid-off 30 percent of its workforce since February 2009 and has significantly reduced service, the airline still operates on a USD 1.4 million monthly deficit. In order to survive, Chikumba insists the airline must further reduce costs and obtain government relief from its USD 40 million debt, while the country must ratify a new constitution that provides guarantees to foreign investors. End Summary.

Air Zim Analogous to an ICU Patient

¶2. (SBU) In a meeting with conoff on October 14 to discuss Air Zimbabwe's (Air Zim) operations and financial health, Chief Executive Officer Dr. Peter Chikumba outlined the airline's strategy by way of an analogy to an Intensive Care Unit (ICU) patient. According to Chikumba, Air Zim is on life support and in critical condition. Before the airline can be moved from the ICU to a regular hospital ward, the bleeding must be stopped through the airline generating revenues that equal costs. Although the airline has reduced 30 percent of its workforce since February 2009 and ceased operations on non-profitable routes, the airline is still operating at a net USD 1.4 million loss per month, further fueling a collective debt that exceeds USD 40 million. He said the company's high debt to equity ratio, aged fleet, and red ink, coupled with the country's political and economic uncertainty, make attracting foreign investors impossible.

¶3. (SBU) For Air Zim to upgrade from the ICU and move to a ward, Chikumba stressed the need for immediate action on four pillars: Finance, People, Equipment, and Routes. In the financial pillar, he emphasized the need for the government to assume over USD 40 million in debt the company currently has on its balance sheet. He said that without debt relief, revenues would continue to be eaten by debt payments, making capital improvements impossible. In addition, the size of the debt in relation to the company's equity made attracting foreign investors nearly impossible.

¶4. (U) Immediate action in the remaining three pillars is designed to control costs and improve profitability. Chikumba said the single most critical goal of the airline is to equate revenues with costs. Toward this goal, Air Zim is looking at further personnel cuts, with a goal of reducing personnel costs 50 percent from those of February 2009. To improve profitability, he said the airline was analyzing all its routes and load factors, had just ceased service to Dubai completely, and had reduced London service to twice a week.

The airline is also trying to lower maintenance and fuel costs by upgrading its B737-200 fleet with B737-300s (equipped with more economical high-bypass CFM-56 engines) which would result in a 30 percent savings in fuel. Chikumba acknowledged it was unrealistic to expect financing for new planes, and said the airline needed to end the mindset of procuring airplanes. Instead, Chikumba said the airline should lease planes and was scouring the used airliner market in an attempt to find two B737-300s as soon as possible.

¶5. (U) Fuel costs continue to be a major hurdle for the airline. While the open market fuel cost is approximately, USD 0.45 per liter in London and Johannesburg, fuel at Air Zim's hub, Harare, is USD 1.0 per liter. Harare jet fuel must be trucked from Beira, Mozambique, which doubles its price. To work around the high cost of fuel in Harare, Chikumba said the airline was purposefully loading more fuel than necessary on return routes from Johannesburg and occasionally using its long-range B767s to serve this short-range route. Admitting to the inefficiency of flying a nearly empty big jet on the relatively short route to Johannesburg, Chikumba said it was worth the savings in fuel when the aircraft returned to Harare nearly full, in preparation for its next flight to London.

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Constitutional Guarantee for Investors

¶6. (SBU) To insure the long-term viability of the airline, Chikumba said it was vital to improve the investment climate in Zimbabwe in order to attract outside investors. He said the drafting of a new constitution was particularly important, and that it had to include a "catastrophic clause" for foreign investors. Lamenting the current state of affairs, Chikumba said, "There are enough crazy people in Zimbabwe who will try to limit foreign investments to 10 years. We must do the exact opposite and include a guarantee for investors in the new constitution." He said that without such a guarantee written into the constitution, efforts to attract outside foreign investment would be futile.

¶7. Paralleling the constitutional reform, Chikumba hopes to eventually sell 60 percent of the airline, to create a 60/40 (private/government) owned airline. Acknowledging that privatization was not currently possible, he stressed his belief that the long-term viability of Air Zim depends upon the sale of the controlling interest from the government. First, it would raise capital. Second, it would create a corporate board focused on profitability. Finally, it would shelter the carrier from inappropriate interference from the government. Chikumba remarked that attracting foreign investment and privatization was the airline's principal goal, once it moved out of the ICU.

¶8. (SBU) Comment: With the economic and political collapse of the country, together with a worldwide decline in airline passenger demand, passenger revenue to Zimbabwe has plummeted. Since 2001, 15 international airlines have suspended service to Zimbabwe and Air Zim's passenger load has decreased from one million to less than 250,000 per year. Even though every day represents another day in the red, we expect subsidies to Air Zim to continue. In a country that has so many pressing needs in health care, education, agriculture, housing, transportation, and infrastructure, the loss in national prestige that would result from the failure of Air Zim appears to be a pill the GOZ can not swallow. End Comment.

PETTERSON